**Transcript of Chairman Kent Conrad Opening Remarks at a Press Conference on the Shrinking Budget Surplus Projections July 3, 2001**

We are on the eve of our national Independence Day, and the irony is that we see our financial independence at risk. The new numbers that have now come to light show that we will see a raid on the Medicare trust fund in this year and that we are likely to see a raid on both the Medicare and the Social Security trust fund next year.

This new administration, only six months after assuming responsibility for the fiscal affairs of this country, after grabbing the steering wheel, have drove us right into the fiscal ditch.

I think many of you saw Mr. Larry Lindsey, who is the President's chief economic adviser, suggest last week that, based on a back-of-the-envelope calculation, that we may see a revenue shortfall this year of some $56 billion. We also saw last week before the Senate Budget Committee three top economists warn us that in 2002 we could face a revenue shortfall of from $50 billion to $75 billion. What this means is that, as I indicated earlier, we face a raid on the Medicare trust fund this year.

Earlier, I had warned that we could face a raid on the Medicare trust fund by 2003 and 2004. That is now being moved up as a result of these new revenue estimates. Let me just start with 2001. You'll recall that in CBO's May baseline they looked at a total surplus of $275 billion. But, of course, $156 billion of that was Social Security trust funds, $28 billion Medicare trust funds. That left us with a non-Medicare, non-Social Security surplus of $92 billion.

The tax bill for 2001 cost $74 billion; the cost of other budget resolution policies is $10 billion in 2001; the associated interest cost is $2 billion; leaving us with only $6 billion of room. If we take Mr. Lindsey's back-of-the-envelope forecast of $56 billion reduction, on this baseline that translates into a $23 billion reduction, leaving us with a raid on the Social Security trust fund of $17 billion this year.

Let me just briefly go over with you how we've adjusted Mr. Lindsey's estimate, because he had talked about $56 billion, but $22 billion of that is already accounted for in the baseline change by CBO and $11 billion would be for the trust fund surpluses themselves. So the non-trust fund change would be $23 billion.

I've indicated that 2002 appears even more serious. It appears now that they will be raiding not only the Medicare trust fund, but the Social Security trust fund as well. This is based on estimates that were provided the Senate Budget Committee last week in a hearing. Again, if we start in 2002 with the CBO baseline surplus--$304 billion--we take out the Social Security trust fund surplus of $172 billion, the Medicare trust fund of $38 billion, that gives us non-trust fund surplus of $95 billion. We take out the cost of the tax bill, $38 billion; the cost contained in the budget resolution of $27 billion--other budget resolution policies. We take out the associated interest cost. That leaves us with only $25 billion of margin.

And then we adjust by the estimates provided economists to the Budget Committee last week--$67 billion. That shows the difference of $42 billion; $38 billion is all there is in the Social Security trust fund. So you've wiped out the entire Medicare trust fund, plus $4 billion out of the Social Security trust fund.

Let me go to the next chart that shows how that calculation was made. This is--we had three economists last week, including a Goldman Sachs economist, who believed we could see a revenue shortfall in 2002 of $75 billion. $10 billion is already accounted for in the May baseline by CBO. That leaves $65 billion. Obviously, there is an associated interest charge of $2 billion, for a total of $67 billion.

Let me go back to the main point, which I think is critical. Here we are--July 4th beckoning. It's a date we celebrate our national freedom. In the last few years, we've had a freedom from deficits.

In the last few years, we have managed to turn things around largely based on a plan that was put in place by the previous president in 1993 that paid down the deficit, that put us on course to eliminate deficits and, in fact, run surpluses; surpluses that in the last several years have meant we were not raiding either the Medicare trust fund or the Social Security trust fund. But in six short months, this administration, after advocating a tax cut that was too large, and after putting a belief in a 10-year estimate of revenue that is proving to be overly optimistic, has put us right back in the bad old days of raiding every trust fund in sight. We're on the brink of raiding the Medicare trust fund this year. According to their own back-of-the-envelope calculations, we're in a position of raiding the Medicare trust fund for every dime that's in it next year, and even going into the Social Security trust fund.

This is fiscal mismanagement on a grand scale. I don't know how else one can say it. The action by the Republican Congress reminds me a little of the poker players playing three-card Monte, and they keep playing even when all the chips are gone.

Republicans in the House are talking about even additional tax cuts when we see the effect of what they've already done is to raid the trust funds of Medicare and Social Security. And the president reminds me of what they call in the oil fields of North Dakota a plunger. A plunger is somebody that continues to drill dry holes even when all his money is gone. And they just keep doing it for the love of the chase, I guess.

And that's what's going on here. The money, this surplus, this vast surplus that has been talked about so much, we now see is not only fully committed, it's over-committed. And they've invaded the trust funds--or they're about to invade the trust funds of Medicare this year and it appears Medicare and Social Security next year. It is breathtaking. I warned repeatedly during the budget debate and during the tax debate that we were basing this all on an unrealistic forecast, a 10-year forecast that was loaded with uncertainty. I said it over and over and over. And during the budget debate and the tax debate, I warned that the tax cut was too large, that it risked precisely what we see happening. I must confess, I did not anticipate it happening this soon. But that's where we are.

And I think it's important for people to know, because this has dramatic implications for what we do going forward. It means that all these funds that have been set aside, these reserve funds, all of those are at risk, because those reserve funds, at least every one of them except the prescription drug fund, is based on not invading the Medicare trust fund. It has serious implications, because this has occurred just based on the Republican passage of the budget and their tax cut, coupled with new estimates of revenue loss because the projections were overly optimistic. This is before any spending has occurred. This is before the president makes a request for tens of billions of dollars of additional defense spending.

We're in trouble already before any new spending for education, even though the Senate has passed overwhelmingly a bill with hundreds of billions of dollars of authorized new spending for education.

This is before any additional money for natural disasters, even though we know on average we have $5 billion to $6 billion of natural disaster cost every year. This is before any further reduction in revenue caused by passing the tax extenders, popular tax provisions that we all know are going to be extended, the research and development tax credit, the windfall and solar tax credits.

And this is before any fix to the alternative minimum tax. As all of you know, we have less than 2 million taxpayers being affected by the alternative minimum tax today, but under this new
tax bill, over 35 million taxpayers will be caught up in the alternative minimum tax. To fix that, to just fix the damage caused by this tax bill, will cost over $200 billion. That's not factored here.

The only elements to the report I'm making to you today as the Senate Budget Committee chairman, the only elements are the budget the Republicans in the House and the Senate passed that was supported by the president, the tax bill the president supported and the Congress passed, and these reductions in the revenue that are now forecast by even the president's own economic adviser as well as professional economists testifying before the Senate Budget Committee.

That's the situation we find ourselves in. Obviously, it's a serious situation, it's one that's going to require a response. I will be calling a hearing next week asking Mr. Lindsey and asking the head of the Office of Management and Budget to appear to give us their ideas on what they would recommend we do. I believe they have an affirmative obligation to come up with spending cuts or new revenue to prevent us from raiding the Medicare and Social Security trust funds.

I think overwhelmingly the people of this country and members of Congress believe we should not invade the trust funds. If you were in any private organization you'd be precluded by law from raiding the retirement funds of your employees, you'd be precluded by law from raiding the health care funds of your employees. Certainly Congress should follow that example and not go into those funds.

With that, I'd be happy to answer questions that people might have.